Executive Summary

Gambling@Home:
Internet Gambling in Canada

October 2001

Background

With the advent of Internet commerce and the establishment of Internet gambling sites offshore, it has been speculated that legalized gambling in Canada will soon expand to include online gambling. The Criminal Code of Canada, however, specifically restricts the way in which Internet gambling could be introduced. Provincial governments are permitted to operate computer-based lottery schemes like Internet gambling but they cannot license others to do so. Further, any province that did wish to offer Internet gambling could not take bets from out of province residents unless that other province allowed it. Finally, any type of gambling on the Internet would have to be legally available in Canada, leaving the most popular type of online gambling—single event sports betting—prohibited. *Gambling@Home: Internet Gambling in Canada* outlines the current state of Internet gambling in Canada, details unique policy aspects of online gambling, considers international approaches to online gambling, and speculates on the possible future of Canadian Internet gambling. The paper concludes with policy recommendations to ease any future transition to Internet gambling.

Key Findings

- Few Canadians gamble online. A 1999 Canada West Foundation survey found that less than 0.5% of people who gamble have gambled through the Internet.
- Estimates are that Canadians comprise of about 1% of patrons to Internet gambling sites in the UK and up to 3% of all online bets processed at a major Australian Internet gambling site.
- Industry profiles suggest that the online gambler tends to be in the lowest income demographic of Internet users, has a higher than average probability of making an online purchase, and is older than the average Internet user.
- Online gambling has unique potential to increase the social cost of gambling and problem gambling because it combines the acknowledged "double threat" of high speed and convenient access with a technology that appeals to youth. Unregulated Internet gambling also has a potential for criminal involvement.
- Some countries are attracted to the potential that Internet gambling has to import international gambling revenue. The by-product is that these countries become exporters of the social cost of problem gambling.

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Implications for Policy Development

The future of Internet gambling in Canada is unknown. It will depend as much on consumer tastes as on government policy or court decisions. It is not clear that a reasonable market for Internet-based gambling in Canada exists, nor is it clear that such a market could be created. The following recommendations address this uncertainty.

- **Any introduction of legalized Internet gambling by provinces or their licensees should only be done with a clear statement of public support.** Prior to introducing new forms of gambling that will disrupt the existing gambling market and incur more social costs, there needs to be a demonstrated measure of public support. This public support does not exist at present.

- **Any introduction of domestic Internet gambling by provinces or their licensees should be done under an interprovincial framework agreement.** The potential to "poach" gamblers from another province presents a problem that is best resolved through provincial cooperation and technological advances.

- **Problem gambling treatment, prevention and education programs need to include efforts to target problems associated with current and future Internet gambling.** Education, research and prevention efforts should be targeted to ward off future problems by identifying the specific dangers of online gambling.

- **Policing and law enforcement efforts to reduce illegal Internet activity by Canadian companies should be increased.** Increasing both the penalties for taking illegal gambling bets and the frequency of monitoring will serve as an incentive for Canadian Internet companies to develop stricter means of screening out Canadian players.

- **Research is needed on the various aspects of the prohibition or legalization of online gambling nationally and internationally.** Countries with experience in legalization and prohibition of online gambling (e.g., Australia) should be examined as case studies to highlight the potential policy implications for Canada.

Methodology

This report is based upon Canada West Foundation survey data, data obtained by Canada West from Internet gambling companies, gambling consulting organization publications and international media sources.

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GAMBLING@HOME:
INTERNET GAMBLING IN CANADA

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CANADA WEST FOUNDATION

ABOUT THE GAMBLING IN CANADA PROJECT

Gambling in Canada: Triumph, Tragedy or Tradeoff? is an ndependent national study of gambling in Canada. Funded by a number of philanthropic foundations including the Donner Canadian Foundation, the 3-year Gambling in Canada Project ends in October 2001. Emerging from public debates about the expansion of gambling, the project was designed to provide a much-needed comprehensive picture of the public policy issues surrounding gambling in Canada. Four overarching research areas are being explored:

(1) the impact of gambling on the non-profit sector;

(2) opinions, attitudes and public policy implications of gambling;

(3) the history and scope of gambling in Canada; and

(4) the socio-economic impact of gambling on communities.

The Canada West Foundation's Gambling in Canada Project is not supported by any government, the gambling industry, special interest groups, or individuals with known positions on gambling issues. The research objectives and output of the project is overseen by a Project Advisory Committee to ensure the accuracy and objectivity of the research.

Copies of the latest research are available by contacting the Canada West Foundation. For information on the current activities of the Gambling in Canada Project, please contact:

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INTRODUCTION

Internet gambling is an emerging issue. Alberta Gaming is looking to the Alberta Gaming Research Institute, the Western Canada Lottery Corporation, and the Interprovincial Lottery Corporation to provide up-to-date information about the various aspects of Internet gambling.
Alberta Gaming Website, 2001.

Gambling is an important growth industry in Canada, providing significant revenue to governments, charities, retailers and business providers (Azmier, 2001). Gambling is largely seen by Canadians as a socially acceptable activity (Azmier, 2000) and many new games (e.g., craps, VLTs, linked bingo) have been introduced in Canada over the last decade to increase revenue and meet player demands. Technology has increasingly played a role in the expansion of gambling in Canada. In recent years, provinces have introduced games such as electronic keno, computer bingo, and video-based slot machines to increase the attractiveness of gambling. With the advent of Internet commerce and the establishment of online gambling sites offshore, it has been speculated that expansion of legalized gambling in Canada will include online gambling.

What is Online/Internet Gambling?

Gambling through a computer is similar to playing any traditional game that has been modified for as a computer program. Like the computerized version of the classic game "solitaire," online gambling takes the traditional forms of casino games like roulette, blackjack, and craps and converts them to two dimensions on a computer screen. Computer graphics and sounds are then added to enhance the entertainment value for the player. Online gambling companies also offer chances to wager money on prohibited activities like single event sports betting—the most popular form of Internet gambling.

Unlike most computer games, Internet games usually are offered free to anyone who has a computer and access to the world wide web. By entering a website address, players can visit a site anywhere in the world and play casino games for free or for money. To play for money, players will typically register with the casino and make an initial deposit from a credit card or other form of electronic money. As in a land-based casino, there are incentives to start or keep playing, including rewarding players with extra gambling "money" by offering incentives in an affiliated land-based casino.

Currently (October 2001), legalized online gambling is not offered in Canada or in many other international jurisdictions. However, even in those countries where Internet gambling is prohibited, it is difficult to enforce rules against gambling on the Internet. As recently as 1997, the Internet gambling industry consisted of approximately 30 web sites (Go Bet Limited, 2001). Today, estimates place the number of online gambling web sites between 1,200 and 1,400 (Falcone, 2001).

As Internet sites are universally accessible to anyone with an Internet connection, online gambling can act as an export industry. While several European countries offer online services only to residents of that country, some smaller nations have legalized online gambling where most gamblers at its sites are foreigners. The Internet gambling industry can be an attractive source of

export earnings, with minimal infrastructure requirements. Additionally, the social cost of gambling is exported as the consequences of gambling addiction and problem gambling are bourne by the community in which the gambler lives. This can be an attractive proposition for those countries providing the access to online gambling and a troubling one for those supplying the gamblers.

CANADIAN LAW AND INTERNET GAMBLING

In Canada, legalized forms of gambling are found in the Criminal Code of Canada's list of exceptions to prohibited gambling activities. Currently permitted activities include private bets between individuals, betting on horse races, a broadly defined range of provincial lottery activity (including casino and electronic gambling), some lottery activity by charities or exhibitions licensed by provincial governments, and international cruise ship gambling. In most provinces these exceptions have resulted in a broad variety of gambling options available for consumers. To date, Internet/online gambling is not featured among legalized gambling offerings in Canada.

There are a number of reasons why we have yet to see widespread Internet gambling in Canada. First, under the Criminal Code only provincial governments are permitted to offer computer-based lottery schemes (like Internet gambling); they may not license others to operate computer-based lottery schemes (Section 207 [4]). Therefore, to offer online gambling in Canada the provincial governments would have to directly operate the sites themselves.

Second, it would appear that any province that did wish to operate an Internet lottery scheme would need to set up the site in such a way that it does not allow residents from other provinces to participate (Section 207 [1]). The Criminal Code specifically prohibits one province from offering lottery schemes to residents of another province without the agreement of the other provinces. Designing an Internet gambling website that restricts non-residents may prove difficult or unprofitable, but can be done as is the case in several European countries.

A final restriction is that any gambling business operated on a computer-based system would have to adhere to the Code's provisions regarding the legalized forms of gambling in Canada. As a consequence, the most popular type of online gambling—single event sports betting—would be prohibited (Section 207 [4]). This may reduce the attractiveness and the profitability of provincially-run online gambling activity.

Provincial governments are looking at their options for Internet gambling. In 2000, Prince Edward Island took a first step towards introducing Internet gambling when they announced that they would license the Earth Fund to conduct an online charitable lottery scheme. This proposed lottery has not gone ahead. The Interprovincial Lottery Corporation took this matter to the Ontario courts seeking a declaration that it would contravene Section 207 (4) of the Criminal Code, which specifies that a province may not license an organization to conduct a computer-based lottery

scheme. Further, if the online lottery was going to take out-of-province participants, then it would violate the provisions of the Code that prevent a province from operating a lottery scheme in another province without permission. PEI takes the view that the lottery scheme would be conducted within the province because the draw would occur there and the other aspects of the operations are to be carried out in PEI. This application for a declaration has been adjourned and Prince Edward Island has placed a reference before its Supreme Court–Appeal Division that raises these issues.

Is it Illegal for Canadians to Gamble Through the Internet?

It is worth noting that, for the individual, the actual placing of a bet online between two individuals is not illegal, as long as both persons are not in the business of betting (Section 204 [1][b]). For an individual gambling on a website located in another country, however, that activity may be illegal in Canada. Section 206 (7) of the Criminal Code makes it an offense to take a ticket in a foreign lottery. To date, there are no reported cases of prosecutions for taking an online ticket in a foreign lottery. Pursuit of a purchaser may be very costly and the extradition of the operator may be very difficult or impossible.

Whether or not it is legal to place an online wager, it is clearly illegal for a private, commercial, Canadian-based Internet gambling site to accept a bet from a Canadian citizen. Vancouver-based Starnet Communications International Inc. was recently found guilty on one criminal count of indictment after recording bets worth nearly $3,000 (U.S.) from undercover police officers (Dubowski, 2000).

Starnet Forfeits Millions in Illegal Internet Gambling Activity

Starnet Communications International Inc., recently pleaded guilty to one criminal gambling count and forfeited approximately $4-million US (Mudry, 2001). Starnet, a publicly traded company, both operated and created software for Internet gambling sites. Police authorities in BC were suspicious that Starnet was accepting online bets from Canadians and as a result set up a police sting operation. As part of the sting, police gambled nearly $3,000 US on the company's site (Dubowski, 2000).

Most online gambling sites are operated offshore, where the local laws deem online gambling to be legal. While Starnet kept its servers in Antigua, one server was being operated from their Vancouver office - the one serving its web pages (Dubowski, 2000). While it is technically illegal for offshore firms to accept wagers from countries where online gambling is illegal, often there is little that can be done to prosecute the offenders due to their absence from the country that would prosecute.

The case brought against Starnet was historic in Canada. Never before had such a large gambling forfeiture been handed, and as a result a precedent has been set that enables police and prosecutors to go after Internet gambling sites that operate in Canada. However, this will likely not address the fact that Canadians will continue to have the ability to gamble on offshore gambling sites.

Now operating entirely out of Antigua, Starnet Communications has changed its name to World Gaming, opened a corporate office in Toronto, and recently announced an active customer base of over 250,000 clientele.

INTERNET GAMBLING OPTIONS:

TO LICENSE, OPERATE, PROHIBIT OR KEEP THE STATUS QUO ON ONLINE GAMBLING?

As described above, the Criminal Code clearly states that only provinces in Canada can operate computer-based lottery schemes. Over the last hundred years, Parliament has occasionally expanded the permissible forms of gambling and it is likely that Parliament would amend the Criminal Code in the future to reflect changes in public attitudes.. This next section examines some possible approaches to Internet gambling in Canada, and their implications.

"We could capture the Internet gaming market and create a virtual Vegas here. I am not joking when I say we will create 1,000 jobs"
Mike Tobin, Mohawk Internet Technologies (Blackwell, 2001A).

Option 1: Provincially Licensed Charity or Commercial Internet Gambling

A change to the Criminal Code would be necessary to allow for the introduction of charity or commercial regulated online gambling. The Code would need to amended to allow provincial governments to license non-government entities to operate an online lottery scheme. Licensing of private, commercial Internet gambling is a popular international option. Some Australian states, a few European countries and some Caribbean countries have all legalized and licensed private, commercial online gambling activities.

The licensing of Internet gambling provides provincial gaming authorities with the ability to regulate and monitor a small percentage of worldwide Internet gambling activity and restrict the potential harm. In addition, First Nations and community groups that operate online gambling could also benefit from increased revenue for economic and social development. Licensing Internet gambling would also "trap" some revenues in Canada that are currently being lost abroad to offshore Internet gambling sites.

Licensing Internet gambling would have several potential negative effects. First, the impact of Internet gambling activity on existing forms of gambling is unknown. Provincial revenues could be

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MaxLotto and Canadian Charities

MaxLotto, an online provider of lottery services, was formed in October of 2000 by a trader from Lehman Brothers and a University of Chicago MBA student. Based and licensed in the Dominican Republic with a marketing subsidiary operating out of New York, MaxLotto has been offering online lotteries as "an alternative to Canadian provincially sponsored lotteries, with bigger cash prizes and better chances to win (MaxLotto, 2001). The company is actively trying to attract Canadian patrons through an aggressive online marketing campaign as well as an online referral system. In addition, MaxLotto claims that up to 10% of revenues will be donated to Canadian-based charities.

While their ambitions may seem meritorious, when various Canadian charities that MaxLotto has listed as benefactors on their website were contacted, the responses were less than favourable. Of all the supposed recipient charities contacted, most had either not heard of the company or on occasion had received a donation that did not exceed $100. One charitable organization had on a previous occasion been issued a legal injunction against anything that may affiliate MaxLotto with their organization. Only one charity acknowledged cooperation.

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threatened by the introduction of new, more convenient forms of gambling. Second, the licensing of Internet gambling would legitimize the activity and increase the potential for developing more problem gamblers. A "seal of approval" from the provincial government could act as a marketing tool to draw gamblers looking for a less risky place to make a wager. In the early 1990s, as governments introduced video lottery terminals (VLTs) to replace illegal video machines, there was a substantial growth in access to gambling. Licensing could have the effect of introducing more Internet-based gambling into a community than is foreseeable or desirable. Such an increase could have substantial social costs associated with it.

"It is virtually impossible to prohibit online gambling. It is a big industry. If the provinces aren't able to participate in the industry, someone else will. The money won't go into the coffers of the government of Alberta and the services the government of Alberta supports they have an obligation to get in there and regulate."
Darol Parken, Chief Executive of Chartwell Technology Inc. (Blackwell, 2001B)

A strong underlying principle in both Canadian law and public attitudes is that proceeds of gambling in Canada must benefit the public good through charity and government expenditure. It is highly likely that the licensing of Internet gambling would be done in a way that upholds this principle. Commercial Internet gambling companies could sell their technology and support to charities and First Nation groups, but would likely not be able to participate in direct operation under provincial licenses.

The licensing of private, commercial online gambling was considered in Canada in 1996. At that time an attempt was made by Liberal MP Denis Mills to introduce Private Member's Bill C-353 which would have amended the Criminal Code to allow for licensing private, commercial Internet casinos. The bill did not receive a second reading (Jepson, 2000).

Option 2: Provincially-Run Internet Gambling Sites

Provincial governments are currently able to operate online lottery schemes in Canada as long as they abide by the restrictions on type of game offered (e.g., no single event sports betting, no pari-mutuel betting on horse races) and who they let gamble (i.e., only residents of provinces in which they have permission to operate).

Direct government operation might be an attractive option for some governments. Launching a provincial gambling website would undoubtedly have immediate success because it would combine three compelling elements: legitimacy, convenience, and speed of play. Players can gamble with confidence from comfortable surroundings and receive immediate outcomes. This is a potentially lucrative revenue combination, particularly when the international market is considered. However, as is under consideration in the PEI Earth Fund case, the Criminal Code currently may restrict provinces from operating lottery schemes outside of its borders. Provinces may not have access to substantial international revenues unless the Criminal Code is changed. As long as such a practice is legal in both countries, a province could stand to generate a great deal of revenue from foreign players.

If the Criminal Code allows for international players to wager money on provincial websites, there would be a built-in incentive to be the first province to provide provincially-run Internet-based

gambling. The early adopter would likely benefit from substantial market share until other provinces provide alternatives. However, the barriers to entry into online gambling appear relatively small and, because of competition, any first-to-the-market advantage would be short lived.

Finally, there are noticeable parallels that can be drawn between Internet gambling and VLTs. As was the case with the introduction of VLTs, Internet gambling might serve as an effective revenue generating mechanism for provincial governments. VLTs were seen as a means of limiting the proliferation of illegal gambling machines in a similar manner to the current illegal Internet gambling sites. This is an attractive combination for First Nations, charities and governments looking for any opportunity to expand resources and economic development opportunities. However, VLTs have proven to be a contentious form of gambling in Canada. The main criticisms of VLTs, that they are too accessible and too addictive, apply equally to Internet gambling options.

"There's a real feeling among those involved that this is a very low risk operation for them. In their eyes, it's a minor penalty in the justice system, so there's not a lot of fear from that standpoint." Sgt. Glenn Hanna - Combined Forces Special Enforcement Unit (Sands, 2001).

Option 3: Actively Prohibit Internet Gambling

In Canada, the federal Parliament enacts the gambling provisions in the Criminal Code; however, the responsibility for prosecuting Code offences is assigned to the Attorney General of each province. To date, police investigations appear to have focused on domestic providers of Internet gambling rather than upon domestic participants or offshore providers (see Starnet textbox page 4). Obviously, offshore investigations can be difficult and costly. There is little chance of prosecuting someone who is not within Canada or who is in a country where online gambling is legal.

Kahnawake Gaming Commission

The Kahnawake Gaming Commission (KGC), established in June 1996 on the Mohawk Reserve of Kahnawake, currently regulates approximately 20 Internet gambling sites. The KGC enacted the Kahnawake Regulations Concerning Interactive Gambling as a regulatory model for online gambling sites. Mohawk Internet Technologies is the Internet Service Provider, hosting the online gambling sites on supercomputers located on reserve land. The KGC sets regulations for the online sites that they host, charge a $10,000 annual licensing fee, and have employed PriceWaterhouseCoopers to audit their clients.

While the Kahnawake Nation are not themselves conducting gambling activities, they do appear to be operating in violation of the Criminal Code of Canada. Under the Criminal Code, only a body specified by the province may issue licenses for lottery schemes. The Kahnawake First Nation claims that they are offering their clients the legal protection of a sovereign nation, and do not feel that the Criminal Code should apply.

The activities of the KGC have been the subject of an ongoing Sureté du Quebec investigation. The Quebec Minister of Public Security, Serge Menard, has spoken out against the operation of online casinos in Quebec on the grounds that they are illegal (Moore, 2001). However, it has been speculated that the Province of Quebec has not taken action to halt the KGC's operation due to residual tensions that still exist between the province and the Mohawks of Kahnawake in response to the Sureté Quebec's raid at a Mohawk barricade in Oka, 1990 (Moore, 2001).

Stopping Internet gambling companies from taking bets from Canadians is a difficult proposition. Internet gambling sites that are available to Canadians originate in offshore jurisdictions and may operate under foreign licensing and foreign law. Unless governments actively try to stop or deter people from betting online, they will be relatively helpless in their efforts to prevent Canadians from gambling on offshore sites. Some Canadian companies involved in the Internet gambling industry also appear to have circumvented laws by establishing offshore subsidiaries in jurisdictions where gambling is legal and by not accepting wagers from Canadian residents, allowing them to avoid domestic laws while still participating in online lottery schemes. As the maximum sentence for violating the Criminal Code with respect to operating illegal, online gambling is two years imprisonment, for an industry with annual revenues expected to reach the billions (worldwide) in the near future, this may not act as a sufficient deterrent (Sands, 2001).

With at least some Canadians gambling online, potential revenues are leaving the country. Provincial governments may become more active in deterring illegal online gambling if it begins to cut into their casino and lottery profits. While this appears possible, there has been no evidence to suggest that it is happening yet. Gambling revenues in Canada continue to grow at a rapid pace.

Option 4: The Status Quo

Proponents of private, commercial Internet gambling argue that the provinces of Canada must develop a framework to license the provision of online private, commercial gambling if the prevalence of illegal online gambling in Canada is to be reduced. Not doing so only drives operators and revenues offshore (Gambling News, 2001).

It appears that there is a sense of urgency on the part of commercial operators of gambling to stem through legalization the flood of gambling revenue to offshore sites. Although, it is not clear if online gambling is currently having any measurable effect on existing forms of gambling or revenue sources, the legalization of online gambling most certainly would. As was the case when provincial VLTs where introduced to replace illegal gambling machines, the legitimization of internet gambling could create a much larger market than currently exists.

Internet gambling is not a popular activity in Canada (Azmier, 2000). As more Canadians become comfortable with online commerce and gain access to high speed connections to the world wide web, more will undoubtedly try online gambling. However, it is not clear that this reasoning alone suggests a need to rush to provide online services within Canada. Similarly, data do not exist to suggest that prohibiting online gambling will act as an effective deterrent for Canadians. As a consequence, a "wait and see" approach may be the best option for policymakers.

INTERNET GAMBLING IN CANADA: TIMELINE

1987

• *Chartwell Technologies, located in Calgary, is incorporated on December 16. Shares are publicly traded on the Canadian Venture Exchange. Future products will include software for Internet and play-for-fun casinos. Future online gambling sites will be hosted through an offshore subsidiary called Gametech Corp.*

1995

• *Starnet Communications, based in Vancouver, is established to develop, license and provide online gambling technology and websites. Products include casino games, sportsbook wagering, and 24-hour live simulcasts of international sporting and other events such as pari-mutuel betting and interactive lottery and bingo games. To evade potential legal barriers with Canadian regulators, offshore subsidiaries specialize in the various development, licensing, and e-commerce functions for their clients.*

• *Cryptologic is formed by Mark and Andrew Rivkin to showcase encryption technology to secure the Internet. Online casinos are the chosen medium to display their technology. Based in Toronto and specializing in Internet casino software and electronic payment systems, they eventually will become one of the largest providers of services to online gambling companies. Market capitalization will approach $535 million (listed as CRY on the TSE).*

1996

• *The Kahnawake Gaming Commission (KGC) is established on June 10th. The Kahanwake First Nation develops Kahnawake Gaming Law that sets regulations for online gambling. While the KGC does not operate gambling, through their subsidiary, Mohawk Internet Technologies, they are the ISP hosting Internet gambling sites.*

• *Cryptologic receives first licensee, Intercasino, which will develop into one of the largest international online casinos.*

1997

• *Liberal MP Denis Mills introduces a private members bill, C-353 - an act to amend the Criminal Code of Canada to allow the federal government to license private commercial Internet gambling and collect taxes on earnings. The bill does not receive a second reading.*

1998

• *Starnet Communications announces that its wholly owned subsidiary, Softtec Systems Caribbean Inc, licenses complete, customized Internet gambling systems in exchange for a portion of net-revenues; licensed its first real money Internet gambling system to Atlantis Corp. operating out of Antigua.*

1999

• *RCMP raids Starnet's Vancouver office for its participation in illegal gambling. While all gambling servers were based offshore, investigators claim that an e-mail server located in Vancouver is an extension of offshore operation and thereby violates the Canadian Criminal Code.*

• *The operations of the Kahnawake Gaming Commission become the subject of a Sureté du Quebec investigation. The investigation involves their licensing of Internet gambling sites.*

• *Due to domestic legal concerns, Chartwell Technology Inc. establishes Gaming Tech. as a wholly owned subsidiary under the laws of Belize and headquartered in Belize City. All rights to the Internet gambling software for deployment of play for real money applications are transferred to Gaming Tech.*

2000

• *PEI sets out requirements and license conditions for future Earth Fund Lottery. The Earth Fund, a federally registered charitable organization, received provincial approval to operate a non-profit Internet lottery from Montague, PEI. Ticket prices would be set at $50 US so as to not compete with conventional lotteries. Estimates are that the lottery would raise $120 to $180 million US annually from players around the world. Two monthly prizes of $1 million as well as a series of smaller prizes would be awarded. Proceeds would fund environmental initiatives, as well as other charities such as Doctors Without Borders and the World Conservation Union.*

• *Interprovincial Lottery Corporation (ILC) files an application with the Ontario Superior Court of Justice for a declaratory judgement that would declare the PEI-based Earth Fund Lottery illegal. The ILC contends that the lottery violates the Criminal Code of Canada, as it would intend to sell and distribute lottery tickets into other Canadian provinces. Legality of whether a charitable organization can use computers to operate a lottery either inside or outside its province is also an issue.*

• *Cryptologic annual report states that registered users of Cryptologic electronic payment systems for online betting climb three-fold from 150,000 in 1999 to 680,000 in 2000, and reports processing more than $5 billion US worth of electronic commerce transactions from their clients - with a less than 1% fraud rate. Total winnings that online casino licensees have paid out exceed $4.9 billion US.*

• *Chartwell Technology is selected to design and build the Harrah's Play for Fun Virtual Casino. Chartwell casinos splits company into two separate operations: one based in Calgary to provide play for fun software, and one in Belize to sell software to Internet gambling sites.*

• *Project Citre is started to investigate a drug trafficking operation in Toronto. The Ontario Illegal Gambling Enforcement Unit joins the operation to investigate organized crime s illegal gambling network.*

• *Cryptologic licenses Casino Sur, the first online casino in Argentina.*

2001

• *Starnet Communications International Inc. is fined $100,000 for its involvement in Internet gambling and is ordered to forfeit $6 million deemed to be the proceeds of crime. The penalties were assessed after the company pleaded guilty to one count of keeping a device for gambling or betting. Company officials were not personally charged.*

• *Now operating out of Antigua, Starnet Communications changes its name to World Gaming, opens a corporate office in Toronto, and announces an active customer base of over 250,000 clientele. Under development is a $5-million private placement to fund its expansion into emerging markets in Asia-Pacific, Europe and South America, where there are fewer restrictions on Internet gambling than in Canada and the US.*

• *Chartwell Technologies establishes CYBERBANX, a complete banking interface and e-commerce system, and releases a JAVA-based online casino software that requires no downloading.*

• *Kahnawake Gaming Commission hosts 20th online casino, up from 12 the previous fall.*

• *Police announce that one of Canada s largest organized crime family s high tech illegal gambling operation was raided. The illegal bookmaking ring took in $200 million each year by accepting bets over the Internet, cellular phones, palm pilots, pagers, BlackBerry wireless devices and storefronts. Code-named Project Citre, 31 homes and seven businesses in Ottawa, Toronto, Montreal, and Hamilton were targeted.*

CURRENT ONLINE GAMBLING IN CANADA

1. Participation Levels

Currently, the number of Canadians who participate in online gambling is low. In a survey conducted by the Canada West Foundation in 1999, it was found that less than 0.5% of people who gamble have gambled through the Internet. Only one respondent in 2,202 stated that they have gambled online more than a couple of times (Azmier, 2000). Given such a low prevalence rate, it is understandable that governments in Canada have not felt a pressing need to operate provincial government online lottery schemes. However, with increasing options to gamble on the Internet, online gambling participation rates may increase in the future.

Further statistics on the number of Canadians that currently gamble online are hard to obtain. This is in part due to the fact that many online gambling firms are unwilling to release public information due to concerns regarding the legality of the activity. From sources that are available it does appear that some Canadians are gambling on offshore Internet gambling sites. Global Betting and Gaming Consultants, an online gambling consulting firm based in the UK, estimates that Canadians comprise of about 1% of patrons to Internet gambling sites in the UK (Global, 2001). CanBet, a major Australian online bookmaker, claims that up to 3% of all online bets processed annually are of Canadian origin. Bets totalling $2.7 million were made by Canadians, with $76,751 being retained by CanBet as profit (CanBet, 2000). It should be noted that the CanBet figures represent only one of the many online gambling sites that are able to process transactions from Canadians. This clearly shows that while a domestic option for online gambling does not exist, a small portion of Canadians already are active Internet gambling participants at offshore sites.

It is important to note that studies have shown that the main reason for not gambling online is not a lack of interest. In a Canada West Foundation gambling behaviour survey, a lack of Internet access (42%) was cited as the main reason to not gamble online (Azmier, 2000). Additional concerns that are frequently voiced regarding gambling on the Internet include the security of online games, credit card fraud, and reliability of payment. In the future, as the industry matures and people become more familiar with established providers, these fears may be reduced and in the process participation levels may increase.

2. Profile of the Average Gambler

Although there have been attempts by online gambling companies, Internet survey groups, and financial institutions to profile the online gambler, most of these studies are not scientific and hence only provide broad estimates. The information that does exist suggests the average online gambler tends to be in the lowest income demographic of Internet users, has a higher than average probability of making an online purchase, and is older than the average web surfer (Falcone, 2001). American citizens also comprise the majority of online gamblers, in spite of attempts by many state legislators to prohibit and restrict online gambling activity. (These efforts

include introducing measures to make credit card gambling debt unenforceable, attempting to pass laws to regulate or prohibit Internet gambling, and in some cases prosecuting those who accept illegal bets from Americans.)

3. Types of Online Gambling Available

An online alternative has been developed for most traditional types of gambling. Casinos, sports bookmaking, pari-mutuel betting and lotteries are all available online, and other games such as bingo and mahjong are increasingly being offered over the Internet. While all forms of online gambling are predicted to grow in the future, lotteries, sports betting and pari-mutuel wagering are expected to increase the fastest (Falcone, 2001). These growth predictions are not surprising as Internet gambling offers access to types of gambling not available in Canada. Single event sports betting is very popular in places like Las Vegas but is illegal in Canada. Such an online gambling option might allow Canadians to bet on sporting events using Vegas odds, the same odds that many Canadian newspapers publish. Moreover, with sports betting and pari-mutuel wagering, much of the skepticism of gambling over the Internet is eliminated as the outcome of the wager is not controlled by a "rigged" machine. The gambler can watch the sporting event and know the outcome of the bet to be fair and beyond manipulation by the casino operator. However, credit card fraud, non-payment issues, and rigged games could still occur. Similar reasoning applies to online ticket sales for traditional lotteries.

For online casino games, there may need to be brand recognition for consumers to have more confidence that the games being offered online are fair and not rigged. Plans by traditional land-based gambling operators with well established reputations, such as Harrah's and MGM Mirage, to enter the online gambling industry may mitigate these concerns, as their brand names have become synonymous with high quality gambling operations. Provincially-run Internet gambling would likely benefit in the same way.

INTERNATIONAL APPROACHES TO INTERNET GAMBLING

Due to the lack of physical boundaries in cyberspace, online gambling presents a unique set of enforcement issues. Internationally, there does not exist a uniform or common framework for legalized online gambling. In general, as online gambling is a recent phenomenon, regulations where they do exist are not comprehensively developed and are subject to ongoing change.

Increasingly there exist more practical barriers to establishing an Internet gambling venture. Concerns that a large number of illegitimate online gambling providers will surface have been reduced. Host nations, for example, are beginning to charge large licensing fees to increase the cost to set up establishments. In a bid to increase the industry's reputation and prevent online fraud, the government of Antigua recently set up a toll free hotline to register complaints with the online gambling sites that they license.

Four International Approaches to Internet Gambling

The Canadian model is unique in its provision for provincial government lottery schemes operated on a computer. Internationally, there are few similar approaches to that of Canada. The most common approaches taken by other countries are detailed below.

1. Laissez-faire Approach: Entrepreneurs/businesses pay money to obtain an operating license, and/or a percentage of revenues to the host nation. This approach is confined mainly to smaller jurisdictions such as Antigua and Costa Rica where little or no additional regulations are in existence. Targeted patrons are usually offshore, located in countries that often do not sanction or offer Internet gambling.

Advantage: Raises revenues for host nation regardless of success of venture and can act as an export industry.

Disadvantage: Targeting patrons from other jurisdictions can create international conflicts with nations that do not sanction online gambling.

2. Online Gambling Restricted to Residents: Primarily happening in the case of state lotteries (e.g., Finland). Much the same as current rules governing gambling and lotteries in general. Only difference is the medium that it operates through is the Internet.

Advantage: By restricting operations to domestic residents, conflicts with nations such as the US that have not legalized online gambling or other European nations that do not want to share their lottery marketplace do not occur.

Disadvantage: Limits revenues received to domestic residents, and cannot develop into an export industry.

3. Government Regulation Restricted to Foreign Players: Currently being developed in Australia with regards to Internet casinos. Licenses would be issued to providers of online gambling services subject to the provision that they do not authorize residents from the host nation to gamble.

Advantage: Acts as an export industry by targeting foreigners as a source of revenue, eliminates social cost of online gambling in the host country.

Disadvantage: Targeting patrons from other jurisdictions can create international conflicts with nations who do not sanction online gambling or that do not want to share their domestic marketplace with a foreign state.

INTERNATIONAL INTERNET GAMBLING: RECENT DEVELOPMENTS

United States

• *November 1999.* Kyl Bill passes the Senate Floor. Receives a simple majority in the House ot Representatives but not the two-thirds majority required for fast tracking. Kyl Bill was an effort to introduce legislation as an extension of the Wire Wager Act to ban Internet gambling.

• *Feb. 2000.* Jay Cohen was convicted in Miami of violating the Wire Wager Act for operating the World Sports Exchange from Antigua and accepting bets from American citizens. Later sentenced to 21 months in prison and a $5,000 US fine. Cohen appealed the decision and lost.

• *Jan 2001.* Nevada State Attorney General rules that pay-for-play sites could not offer online gambling credits for land based casinos.

• *March 2001.* Bill 296 introduced in the Nevada State legislature to regulate Internet gambling within Nevada. Law would require that bettors are of legal age and reside in an area where betting is legal.

• *May 2001.* Citi-Bank, Wells Fargo and Bank of America state that they will not allow their credit cards to be used at online casinos as most state laws used to enforce debt collection cannot be used to recover gambling losses.

• *June 2001.* Nevada State Governor signs off on law that allows Internet gambling casinos even though US Justice Department says it is illegal. In order to attract only serious operators the bill will require that each firm pay a $500,000 USD two year online licensing fee in addition to paying a 6% tax on the gross win from the Internet.

Argentina

• *December 1999.* Argentina develops a number of Internet gambling initiatives. Government licenses virtgame.com to develop the country's first Internet-based lottery. Cryptologic of Canada licenses Casino Sur, the first online gambling site in Argentina.

Costa Rica

• *2001.* Estimates are that 15% of the world's Internet gambling sites are located in San Jose (Falcone, 2001) There is currently a $10,000 US base cost for a license and plans are to include a licensing fee of $150,000 US plus annual fees.

Antigua

• *1996.* One of the first nations to legalize and license on-line gambling. Estimates are that over 90 Internet gambling sites are currently located in the country. Annual license charges are $100,000 US for a casino operating license and $75,000 US for sportsbetting. Online gambling is regulated by the Directorate of Offshore Gambling, responsible for administration, monitoring, application processing and receiving complaints.

United Kingdom

• *1992.* Ladbrokes, traditional UK Bookmaker, opens up a betting shop in Gibraltar taking bets via telephone. As it is illegal for offshore UK betting shops to accept UK-based bets, non-UK citizens are the target market.

• *July 2000.* Gaming Board of Great Britain urges reform to Internet gambling and development of legislation on the grounds that prohibition is not practical.

• *July 2001* - Alderney and the Isle of Man enact legislation to permit Internet and electronic gambling. Allowed to begin taking applications for licenses at £75-80,000 a year.

• *January 2002.* Government drops 9% win tax in favour of a 15% gross revenue tax from online sports betting firms. Many UK online bookmaking firms who previously established operations in low tax jurisdictions such as Antigua, Gibraltar and the Channel Islands agree to eventually relocate their offshore e-gambling outposts to Britain.

Continental Europe

• Liechtenstein, *1995.* Government licenses Plus Lotto, audited by Ernst and Young, and insured by Lloyds of London *(1995).* Proceeds support charitable initiatives including Red Cross International .

• France, *2000.* Government licenses on-line lotteries. Lotteries must abide by specific rules including having the draw process verified by a lawyer.

• Netherlands, *November 2000.* Dutch government allows local casinos and gambling organizations to create sites on the Internet as a means of protecting customers.

• Austria, *December 2000.* Austrian Lotteries commenced live cash gambling online for Austrian residents including casino games, instant win games, and lottery schemes.

• Finland, *April 2001.* Finnish Supreme Court ruled that Internet gambling takes place where the server is located (and not where the bettor is located), therefore making it legal for Finnish citizens to gamble at non-Finnish sites. Aland Islands (autonomous islands located between Sweden and Finland) permit online gambling sites.

Australia

• *June 2001.* Federal parliament of Australia voted to ban Australian Internet gambling sites from providing services to Australians and countries opposed to the sites (33 - 28 Senate vote). Lotteries and sports-betting are exempt from ban, with online casinos being the primary target. The ban applies to bettors physically present in Australia. If a foreign country has similar laws prohibiting their residents from gambling online they can apply to the Australian government to be included in the legislation.

Vanuata

• *2000.* In response to the Australian government s decision to issue a licensing moratorium, Vanuatu issues 5 licenses for online gambling sites to Australian based firms, which relocate in response to the Australian governments decision to ban Internet gambling. License application costs $143,000 US with an annual fee of $95,000 US plus an interactive gambling tax of 2% of gross profit.

South Korea

• *June 2001.* Recently introduced Internet lotteries are said to capture 10% of the domestic lottery market. Online gambling company TankSoft plans to launch an Internet-based mahjong game.

Hong Kong

• *October 2000.* Hong Kong Jockey Club (HKJC) in collaboration with local mobile phone companies, established cell-phone based tele-bet accounts to enable patrons to place bets.

South Africa

• *2001.* South African National Gaming Board spends hundreds of thousands of rands on developing legislation aimed at regulating Internet casinos. Under planned regulatory framework, S.A.'s major casino operators could apply for a license to offer online gambling. Regulatory proposals to be presented to Parliament towards end of 2001, where a new regulatory framework is to be finished by 2002.

4. ***Outright Prohibition:*** Previously attempted in the United States with the introduction of the Kyl Bill that would have included online gambling as a violation within the federal Wire Wager Act. Currently in place in China.

Advantage: Reduces social cost of gambling and can prevent revenue from leaving the country provided that agreements are in place with international providers to not accept bets from the nation's citizens.

Disadvantage: As the Internet is hard to regulate unless deterrent penalties and enforcement are in place for the actual act of placing a bet, nothing will prevent domestic residents from accessing offshore sites. In the process, revenues will be transferred offshore to the jurisdictions that host the facilities.

Australia: The Evolution of the Regulation of Private, Commercial Online Gambling

Australia is viewed as a leader in the online gambling industry, being one of the first nations to establish an online regulatory framework. In May 1997, gaming ministers from all Australian states and territories released the Draft Regulatory Control Model for New Forms of Interactive Home Gambling, which allowed for each individual jurisdiction to pass its own regulatory legislation (Senate, 2000). Within a few years, online gambling in Australia exploded, particularly as a lucrative export business. For example, Lasseters Online Casino suggested that 86% of their clientele were international, representing 161 different countries; similarly, CanBet, an online racing and sports wagering company, claimed that 98% of their market is Americans (Senate, 2000).

While online gambling companies were thriving in the country, gambling rates were also reaching new heights. An official report in December 1999 confirmed that Australia had one of the world's highest rates of gambling and found that 300,000 of its 19 million people had a betting problem (Internet Gaming News, 2000). In response to the report, Australia's National Government used its constitutional power to impose a 12-month moratorium on the issuing of new online gambling licenses, citing the fear of expansion of problem gambling in Australia.

To further preempt any negative consequences associated with online gambling, the Australian government legislated the Interactive Gambling Bill 2001. This legislation made it illegal for Australian online casinos to accept bets from players in Australia, but allowed them to seek gamblers overseas unless the other country had laws prohibiting Internet gambling. In a further attempt to prevent Australian citizens from gambling online, the government has been quoted as saying that it will use federal banking powers to enable Australian banks to refuse to honour overseas gambling debts accumulated by Australians on local credit cards (Creed, 2001).

The Australian regulatory model for online gambling represents an interesting case. Even though proponents of online gambling have stated that there is little evidence to suggest that Internet gambling is a problem, and that relatively few Australians were actually betting online, locals were banned from engaging in the activity. It appears that Australia was hoping to reap the financial rewards of online gambling without exposing its citizens to the social costs associated with the activity. This framework makes sense for Australia but might pose a problem for the rest of the world as Australian online casinos poach bettors from other countries.

UNIQUE INTERNET GAMBLING POLICY ISSUES

1. Regulating Access

With different jurisdictions having different laws/polices pertaining to online gambling, the need has emerged to know from where an individual is "logging on." For example, in Australia, Internet gambling sites are only permitted to accept bets from individuals residing outside the nation. Conversely in Nevada, a recently approved bill will allow Internet gambling sites to operate on the condition that they only accept bets from individuals within state borders. How do online gambling providers monitor and regulate the individuals who are not supposed to be accessing their site?

There are numerous methods that Internet gambling providers can use in an attempt to keep unwanted users off their site. Some online gambling sites have implemented the use of questionnaires, whereby they ask relatively difficult questions regarding historical people or events and users would have to answer the question correctly in order to obtain access to the site. While by no means foolproof, these questionnaires could act as a deterrent for youth. Similarly, online gambling sites often require users to fill in a registration form, which includes basic information such as one's name, age, and address as well as any payment information such as a credit card number. If a user is under the age of 18 and/or located in a country where online gambling is illegal, the site can then block access to that individual.

While it is easy for an individual to falsify personal information online, sites still have the ability to determine where someone is "logging on" by their credit card number. (Requiring a credit card can also be effective at restricting access to youth.) Further, in jurisdictions where Internet gambling is illegal, efforts have been made by governments to make gambling related credit card debts unenforceable. For example, in the U.S. several banks no longer permit their credit cards to be used at online casinos because most state laws used to enforce debt collection cannot be used to recover gambling losses (Salkowski, 2001).

A third option, although still relatively expensive to implement, is the use of Global Positioning System, or GPS by Internet gambling sites to track where their customers are located. This satellite-based technology could be the key to establishing a regulatory environment that ensures that only those who are permitted to place bets online are doing so (Falcone, 2001).

While there are many steps that can be taken by online gambling sites to limit access by prohibited users, often technology has hampered their efforts. The arrival of new payment technologies, such as Ecash and PayPal, have given people an alternative method of payment. However, these new payment technologies can also become a tool online gambling sites can use to determine where their clients reside.

2. Problem Gambling

Many of the fears that are associated with Internet gambling are related to problem gambling. Studies have found that forms of gambling that offer a fast, arousing span of play, frequent wins and the opportunity for rapid replay–all of which are characteristics of some types of Internet gambling–are associated with problem gambling (Griffiths, 2001A). While combining the addictive nature of gambling to the easily accessible nature of the Internet is reason for concern, evidence of the growth potential of this problem is not yet visible. For example, in British Columbia less than 1% of all people who have sought counseling services for gambling or contacted a gambling help line have cited Internet gambling as their primary problem (Klingspohn, 2001).

"One-third of the online casinos that we contacted were very supportive and fully agreed to post links to our site. However, one-third were down right hostile they did not want to be associated or linked in any way with problem or compulsive gambling and many felt that having a CMHA banner on their site would threaten revenue generation.

Bill Ursel
Director, Problem Gambling Community Program CMHA of Saskatchewan

While it seems as though relatively few people suffer from Internet gambling addiction, to suggest that it is not an an emerging or potential issue would be premature. Internet gambling is a relatively recent phenomenon, much like VLTs were only a few years ago. Although VLTs have only been around for a relatively short time, they are arguably the most addictive form of gambling. For example, in Saskatchewan, 80% of those individuals who have sought problem gambling treatment services cited VLTs as the reason for their visit (Christensen, 2001). While VLTs and Internet gambling provide two very different ways of gambling, they both share the characteristic of being highly accessible. Just as VLTs provide people with a highly accessible means by which to gamble, the Internet provides an even more accessible medium. With the Internet, people have the ability to gamble from their home, office, or even through a cellular phone. Research has shown that increased accessibility to gambling not only increases the number of regular gamblers but also the number of problem gamblers (Griffiths, 2001B).

Steps have also been taken by outside firms and agencies to help minimize the potential harm of online gambling. U.S. based firms, such as Christiansen Capital Advisors and Gemini Research, are developing software packages that will enable online casinos to better identify problem gamblers (Strow, 2001). The system can take intervention steps, such as limiting a player's bets or sending messages urging the player to seek help, when the player's wagers become unusually high (Strow, 2001). Similarly, the Canadian Mental Health Association (CMHA) of Saskatchewan has lobbied Internet gambling sites to attach a banner link of the CMHA website as a means of providing assistance for problem gamblers (Ursel, 2001). While these steps to minimize the effects of problem gambling are a good start, ultimately the responsibility lies with the online casino provider and there exists no guarantee that they will be proactive in combating problem gambling.

3. Youth Gambling

Another significant concern surrounding Internet gambling is the possible rise in youth gambling. The concern lies with the fact that many of today's youth have grown up with the Internet and are often quite proficient at finding their way around in "cyberspace." There are barriers for youth to gamble online, but it is not impossible for them to falsify their age and obtain a credit card number

in order to do so. The current evidence suggests that youth on-line gambling is not yet a major problem. The Addictions Foundation of Manitoba conducted a Youth Gambling Prevalence Study in which youth aged 12-17 were asked several gambling related questions. It was found that less than 1% of all youth surveyed who had participated in gambling activities over the past 12 months had gambled over the Internet (Wiebe, 1999).

While very few youth currently appear to be gambling online, this may change over time. The establishment of "for-fun" casino games online by many of the largest Las Vegas casinos allows people of all ages to play virtual slots, blackjack, and other games without the threat of losing money. These "for-fun" casinos encourage youth to learn how to play the casino-style games, which may make the youth more inclined to try their luck at a "for money" online casino. This, coupled with the fact that high school and college-aged individuals tend to show the highest problem gambling rates of all age groups, should be reason for concern (American Psychiatric Association, 2001). However, parents have the ability to lessen the child's ability to gamble online. By implementing such software as "surfwatch," which allows the user to block online gambling and other sites that may be deemed inappropriate, parents can limit the access their children have to gamble on their home computer.

4. Internet Gambling-related Crime

As Internet gambling has become more widespread, some concerns have emerged surrounding the reliability of those providing the service. With the potential for "fly-by-night" providers, users often wonder if they will actually see their winnings or whether their credit card or personal information will be passed around in "cyberspace." Even well-established companies, such as online gambling software provider CryptoLogic Inc., may not be immune to online crime. Hackers, who were able to breach security on two of CryptoLogic's operating licensees, altered casino games so that users could not lose (Reuters, 2001). The games were altered in a way that every roll of the dice in craps turned up doubles, and every spin on the slots generated a perfect match; while only lasting a few hours in duration, 140 gamblers managed to rack up winnings of $1.9 million (Reuters, 2001). As online gambling expands, and more money is wagered, online casinos will likely continue to be targets of computer hackers.

There also exist fears that the introduction of Internet gambling may allow organized crime to jump into the industry. This fear became a reality when a high-tech, illegal gambling ring run by one of Canada's largest organized crime families was exposed. Further, Internet gambling opens the potential for the use of online activity for money laundering purposes. Without disclosure requirements, Internet casinos provide good locations to deposit criminally obtained money. Overall, in the absence of provincially operated online lottery schemes or provincially licensed lottery schemes, the current online industry may continue to attract criminal activity.

RECOMMENDATIONS

The future of Internet gambling in Canada is unknown. It will depend as much on consumer tastes as on government policy or court decisions. It is not clear that a reasonable market for Internet-based gambling in Canada exists, nor is it clear that such a market could be created. Whatever the future holds, a number of recommendations can be made to ease any transition.

1. The introduction of legalized Internet gambling by provinces or their licensees should only be done with a clear statement of public support. Some Canadians do gamble on the Internet and gambling revenue is leaving the country, However, these reasons alone should not serve as a justification for expansion. Gambling policy should not be based on a desire to capture all gambling revenue. Rather, an effective gambling policy reflects the public's desire for more gambling options. Prior to introducing new forms of gambling that will disrupt the existing gambling market and incur more social costs, there needs be a demonstrated measure of public support for such an option. This public support does not exist at present.

2. Any introduction of domestic Internet gambling by provinces or their licensees should be done under an interprovincial framework agreement. Legal conflicts have already risen over the potential for an online gambling operation located in one province to attract and process bets from Canadians who reside in other provinces where online gambling is not offered. The potential to "poach" gamblers from another province presents a problem that is best resolved through a combination of provincial agreements and technological advances. An interprovincial agreement on policies regarding Internet gambling would facilitate the development of a more controlled introduction, one that would minimize the increase in harm associated with more gambling expansion.

3. Problem gambling treatment, prevention and education programs need to include efforts to target problems associated with current and future Internet gambling. Internet gambling, whether legal or illegal, creates social costs in the form of problem gambling. While internet gambling is still at an embryonic stage, existing gambling treatment programs can be modified to make treatment appropriate to those with Internet gambling addiction issues. Most importantly, education, research and prevention efforts should be targeted to ward off future problems by identifying the specific dangers of online gambling.

4. Increase policing and law enforcement efforts to reduce illegal Internet activity by Canadian companies. Monitoring and investigating individuals who bet online may be economically unfeasible, yet it is possible to target those Canadian companies taking online bets from Canadians. Increasing both the penalties for taking illegal gambling bets and the frequency of monitoring will serve as an incentive for Internet companies to develop stricter means of screening out Canadian players. Other means of deterring the taking of Internet gambling wagers from Canadian players can include provision to make illegally incurred gambling debt unenforceable and negotiating with countries to not allow their licensees to take wagers from Canadians.

5. Undertake research on the various aspects of the prohibition or legalization of online gambling nationally and internationally. Research on the social and economic impacts, jurisdictional issues, the impact on existing forms of gambling, and the current and future potential scope of online gambling can guide Canada's reaction to this policy issue. Countries with experience in legalization and prohibition of online gambling (e.g., Australia) should be examined as case studies to highlight the potential policy implications for Canada.

CONCLUSION

Internet gambling is a unique form of gambling. Virtually anyone can gamble at an Internet casino or Internet bookmaker from anywhere in the world. For the cash-conscious provinces, the potential exists to introduce legal Internet gambling that can fund Canada's governments and charities with local or possibly international revenue sources. Gambling expansion, however, would increase the social cost of gambling within the province, and could turn the province into an exporter of the social costs associated with problem gambling to the international community.

It must be acknowledged that provinces will likely continue to lose potential revenue to off-shore Internet gambling sites no matter what action is taken. The expansion of legalized gambling in Canada has not stopped the regular flights and busses to the U.S.-based casinos. Efforts to prevent illegal gambling in Canada have not eliminated the after-hours casinos and illegal VLTs. Rather, by introducing new legal gambling options, a consumer market is created that is difficult, if not impossible, to control.

In several respects the future of online gambling does look bright. Online purchases of goods and services have only recently started to represent a significant source of sales for businesses. Online gambling may similarly gain wider acceptance as reputable foreign providers enter the market. New technology will bring the possibility to make online betting more convenient through television or cellphones. As the online gambling companies here and abroad capture the imagination and confidence of Canadians, policymakers may come under increased pressure to stop revenue from leaving Canada and offer another domestic gambling option.

The nature of government response to this pressure may be the most important determinant of the future of Internet gambling. Government involvement in gambling (as provider or licensor) will almost certainly provide a sense of legitimacy to the activity thereby reducing the risks of non-payment and "rigged' outcomes. Canadians believe that provincial governments do an effective job of limiting the harm associated with gambling (Azmier, 2000), and have quickly embraced the new government gambling offerings over the past decade. Because of the double threat that Internet gambling carries (ease of access and high speed play), provincial governments will face a substantial challenge in determining the course of action on Internet gambling that does the least amount of harm. ■

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